

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER, MAY 2005

DEGREE/DIPLOMA AND YEAR STUDY : DIP. COM III

TITLE OF PAPER :PRINCIPLES OF TAXATION AND
AUDITING

COURSE CODE :AC 304 (M) 2005

TIME ALLOWED :THREE (3) HOURS

- INSTRUCTIONS**
1. TOTAL NUMBER OF QUESTIONS ON THIS PAPER: FOUR (4)
 2. ANSWER ALL QUESTIONS
 3. THE MARKS AWARDED FOR A QUESTION/PART ARE INDICATED AT THE END OF EACH QUESTION/PART OF QUESTION.
 4. WHERE APPLICABLE, SUBMIT ALL WORKINGS AND CALCULATIONS.

NOTE: YOU ARE REMINDED THAT IN ASSESSING YOUR WORK, ACCOUNT WILL BE TAKEN OF ACCURACY OF THE LANGUAGE AND THE GENERAL QUALITY OF EXPRESSION, TOGETHER WITH THE LAYOUT AND PRESENTATION OF YOUR FINAL ANSWER.

SPECIAL REQUIREMENTS: NONE

THIS PAPER IS NOT BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR.

RATES OF NORMAL TAX FOR INDIVIDUALS AC304(M)2005 Page 2 of 7

TAXABLE INCOME	RATES OF INCOME
0 to 20,000	0
20,001 to 30,000	12% in excess of over 20,000
30,001 to 45,000	1,200 + 20% in excess over 30,000
45,001 to 60,000	4,200 + 25% in excess over 45,000
60,001 to 75,000	7,950 + 30% in excess over 60,000
75,001 and over	12,450 + 33% in excess over 75,000

TAXATION OF TAXABLE BENEFITS
1 FREE AND SUBSIDISED HOUSING

Where a benefit provided by an employer to an employee consists of accomodation or housing, and

- a. **The employer does not own the accomodation or housing, the value of the benefit is the rent payable for the accommodation or housing, reduced by any payment made by the employee for the benefit.**

The amount to be included in taxable income for accommodation or housing is as follows:

2004/2005 40% of the benefit value as computed above.

Taxable benefit	Year	Computation	
Accommodation	2004/2005	(Rent payed by employer less contributions by the employee)*40%	

- b. **The employer owns the accommodation or housing, the value of the benefit is the rental benefit of the accommodation or housing determined in accordance with the following formula:**

(A-B)*C/100*D/12)less payment by the employee. Where,

- A = the remuneration for the previous year of assessment; or if not available the current remuneration,
 B = an abatement equal to E20,000,
 C = 18 where the accommodation or housing is situated in Manzini or Mbabane urban areas and along the Manzini/Mbabane corridor,
 = 12 if such accommodation or housing is situated in an agricultural estate or other towns;
 = 10 if the housing is institutional housing and is situated in Manzini or Mbabane or along the Manzini/Mbabane corridor: and,
 = 5 in respect of accommodation or housing not covered above.
 D = the number of months in the year of assessment during which the employee was entitled to occupation of the accommodation or house.

Provided that the amount so determined in terms of subparagraph b. shall be reduced by any payment made by the employee for the benefit.

d. The amount to be included in taxable income for accommodation or housing is as follows:

2004/2005

40% of benefit value

Provided that the amount so determined in terms of subparagraphs (a), and (b), after deducting of the payment, if any, made by the employee for the benefit, **other than values determined in respect of institutional housing**, shall not be less the annual or monthly values as follows:

	In Mbabane/Manzini and corridor		Agricultural & Industrial Estates		Other areas	
	Per annum	Monthly	Per annum	Monthly	Per annum	Monthly
Executive house (4 bedroomed)	E8,640	E720	E2,880	E240	E2,160	E180
Medium houses (2/3 bedroomed)	E5,760	E480	E1,440	E120	E720	E60
Bedsitters to 1 bedroom houses	E4,320	E360	E720	E60	E360	E30

e. In this paragraph, "institutional housing" means housing provided by the Swaziland Government or a para-statal or provided by another body for an employee of the Government or para-statal.

2. WHOLLY OR PARTIALLY PRIVATE BENEFIT USE BY AN EMPLOYEE OF MOTOR VEHICLES (including any aircraft or helicopter)

The value of the benefit is calculated as follows:

$(X \cdot A \cdot B / C) - D$

Where,

- X. Is the year of assessment 2004/2005 equals 14%
- A. Is the market value of the motor vehicle at the time when it was first provided for the private use of the employer.
- B. is the number of days in the year of assessment on which the motor vehicle was used or available for private use;
- C. is the number of days in the year of assessment;
- D. is any payment made by the employee for the benefit.

The amount so determined, after deduction of the payment by the employee shall not be less than the annual or monthly value as follows:

Cubic capacity of the vehicle	Taxable benefit Per annum	Taxable benefit per month
	E	E
Under 1600cc	5160	430
1600cc to 2000cc (with value less than E60,000)	6900	575
1600cc to 2000cc (with value E60,000 and above E60,000)	8640	720
Over 2000cc (with value less than E80,000)	8640	720
Over 2000cc (with value over E80,000)	15480	1.290

2.2 The market value of the car is the cost (without sales tax) to the employer at the time it was first provided to the employee. The market value of second hand car is shown in the Auto Dealer's Guide. For vehicles that were purchased in Swaziland this value may be adjusted to 110/114 (96.5) or 112/114 (98.25) of the Guide value, depending on the rate of sales tax in force in Swaziland at the time the vehicle was purchased. That is, the value of the car is cost less sales tax.

2.3 Where an employee is provided with more than one vehicle, taxable benefits will be evaluated on an individual basis.

2.4 Where an employee purchases a vehicle with assistance from the employer as part of the benefit or advantage accruing by way of employment, the fixed allowances given towards the *fixed capital* and running costs of the vehicle are taxed in full.

But if the commissioner is satisfied that circumstances warrant a variation the following may be used to determine the annual benefits.

3. ALLOWANCES

3.1 Any amount paid by an employer to an employee as allowance (such as house allowance) is a taxable benefit.

3.2 *Reimbursive allowance*: Where an allowance or advance is paid by the employer to an employee in respect of expenses of travelling, entertainment or other service, as is not actually expended for official purposes, will be regarded as taxable benefit in the hands of the employee. The benefit is determined according to the following formula:

$$A=(B-C) \quad \text{Where,}$$

A is the taxable benefit,

B is the actual amount paid by the employer to the employee,

C is the justifiable official expense incurred by the employee.

3.3 Where an employee incurs expenditure on travel, entertainment etc on the employer's business and the employer reimburses such employee, and where the employer pays an allowance in respect of the use of the employee's private vehicle for the employer's business at fixed rates per kilometre (which rates approximate the rates published by AA of South Africa) *the amount so received is not income in the hands of the employee but merely a reimbursement of expenses.*

3.4 This requires the employee to produce proof to his employer that such expenditure was actually incurred and has been accounted for.

4. PROVISION OF DOMESTIC ASSISTANTS

- 4.1 Where a benefit provided by an employer to an employee consists of the provision of a domestic assistant, the value of the benefit is the remuneration paid to the domestic assistant in respect of the services rendered to the employee. The amounts to be included in taxable income are as follows:

2004/2005 40% of benefit value

Provided that the amount so determined, shall not be less than the annual or monthly values as follows:

	Per annum (each) E	Monthly (each) E
<i>Domestic servants</i>		
Households (cooks, maids)	954	80
Security guards	954	80
Gardeners	476	40

5. UTILITIES

- 5.1 Where a benefit provided by the employer to an employee consists of the reimbursement or discharge by the employer of an employee's utilities expenditure, the value of the benefit is the amount of the reimbursement or discharge, if separately metered.

a. The amounts to be included in taxable income when separately metered are as follows:

2004/2005 40% of cost of utility

Provided the amount so determined, shall not be less than the annual or monthly value as follows:

	Per annum (each) E	Monthly (each) E
Electricity	840	70
Telephone	840	70
Gas	390	35
Water	390	35
Fuel	390	35

b. Where the utilities are not metered and paid separately, 10% of the housing benefit value for each service.

- 5.2 "Utilities expenditure" means any expenditure for fuel, power, water, sewerage, or telephone in respect of an employee's place of residence.

6. CHILDREN'S EDUCATIONAL BENEFITS

- 6.1 The taxable value of educational benefits (such as school fees) is tax assessed 100% of the costs of these benefits. The value of any transportation of employee's children provided by the employer is tax exempt.

- 6.2 Educational benefits are school fees, boarding fees and other educational expenses paid by the employer on account of the education of the employee's children.

7. SOFT LOANS

- 7.1 A taxable benefit accrues to an employee where:

a. A loan is granted to an employee and either the employee pays no interest on

- loan or pays interest at less than the official rate;
- b. An employer has paid a subsidy in respect of capital repayment or interest on loan; or
- c. An employer pays a lender subsidy in respect of capital repayment or interest on a loan to an employee.

7.2 For the purposes of subparagraph 7.1:

- a. In respect of a loan the term of which is two years or more in duration, and in respect of which the repayment amount is a fixed periodic or monthly instalment calculated to amortise the loan over a future period, the value of the benefit for the year of assessment shall be the difference between the redemption amount actually incurred or paid by the employee and the redemption amount that would have been payable if the redemption amount had been determined over the same future period using the official rate of interest.
- b. In respect of any other loan, the value of the taxable benefit for any year of assessment shall be the interest on the loan calculated at the official rate less the amount of interest (if any) that the employee actually incurred during the year of assessment.

The amounts to be included in taxable income are as follows:

2004/2005	40% of benefit value
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7.3 The official rate of interest is the Central Bank Discount Rate.

8. **DEBT WAIVERS**

Where a benefit provided by an employer to an employee consists of the waiver by an employer of an obligation of the employee to pay or to repay an amount owing to the employer or to any other person, the value of the benefit is the amount of the payment or repayment waived.

9. **PROPERTY TRANSFERS**

Where a benefit provided by an employer consist of the transfer or use of property or the provision of services, the value of the benefit is the market value of the benefit, reduced by any payment made by the employee for the benefit.

10. **MISCELLANEOUS BENEFITS**

10.1 The value of any benefit provided by an employer to an employee, which is not covered in the previous paragraphs, is the actual cost of the benefit, reduced by a payment made by the employee.

QUESTION 1

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Bongani Dladla was employed as a Chief Accountant in a Mbabane based company from 1.7.2004. His income particulars for the year ended 30.6.2005 were as follows.

INCOME/RECEIPTS

1. His monthly salary as a Chief Accountant was E12,000.
2. From 1.7.2004 his employer provided a 3 bedroom house within a 10 km radius of Mbabane City centre. The house was owned by the employer. Dladla contributed E400 per month.
3. From 1.7.2004 his employer paid and provided for the following services: residential telephone E600 per month, piped water E400 per month, electricity E500 per month, a house maid E1,300 per month, and a security guard for E1,500 per month.
4. From 1.7.2004 the employer provided a 2000 cc company car which cost E100,000 before sales tax.
5. The employer paid E20,000 as school fees, and E10,000 as transport costs for Dladla's children
6. The employer extended a loan of E10,000 for a period 1.7.2004 to 30.6.2005 at the rate of 10% p.a. The charge by commercial banks would be 20% p.a.
7. Dladla ran a private business. He earned E20,000 (before depreciation expense) of E2,000 from it.
8. Dladla won a lottery of E10,000 from just a single ticket he bought on Christmas.
9. He received E12,000 as interest revenue from subscription shares in a Swaziland building society.
10. He earned an interest income of E4,000 from a fixed deposit with Standard Bank Swaziland.
11. He earned E5,000 dividend income from a Swaziland quoted company, and E2,000 from a Swaziland unquoted company.
12. Dladla sold a plot of land in Mbabane for E100,000. The plot cost him E50,000 in the year 2002.

EXPENSES/PAYMENTS

1. He paid E4,000 examination fees and annual fees to the CA accounting body.
2. He paid E3,000 as a premium for a life policy issued by the Swaziland Royal Insurance Corporation. The policy was started on 1.7.2004.
3. He paid E3,000 as a contribution to a provident fund.
4. He paid E6,000 as alimony payment to his divorced wife.
5. He paid E39,820 as tax advance in form of PAYE.
6. He paid E7,500 as interest expense on a housing loan with the Swaziland building society. The rate was 15% on a loan of E50,000.

REQUIRED:

- | | | |
|----|--|-------------|
| A. | Compute the tax payable | (25 marks) |
| B. | Explain why some of the information is not used. | (5 marks) |
| | Total for the question | (30 marks) |

QUESTION 2:

Discuss the classes of non government revenue. (20 marks)

QUESTION 3

An audit program is simply a list of instructions on the work that the auditor should do on the occasion of his audit.

- (a) Mention at least four advantages of using audit programs
- (b) Mention at least four disadvantages of using audit programs

(25 marks)

QUESTION 4

In carrying out an audit assignment, audit firms adopt a system of standard working papers which can be used on all audits.

- (a) Mention at least five advantages of using standardized working papers.
- (b) Mention at least three disadvantages of standardized working papers.

(25 marks)

Total for the paper

(100 marks)